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STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

CENTRAL ILLINOIS PUBLIC SERVICE COMPANY and UNION ELECTRIC COMPANY Petition for approval of tariff sheets implementing revised Market Value Index methodology.	)	Docket No. 02-0656
COMMONWEALTH EDISON COMPANY Proposed revision of Rider PPO (Power Purchase Option – Market Index), Rate CTC (Customer Transition Charge) and Rider ISS (Interim Supply Services), and to establish Rider CTC – MY (Customer Transition Charge – Multi-Year Experimental). (Tariffs filed on October 1, 2002)	)	Docket No. 02-0671
ILLINOIS POWER COMPANY Proposed establishment of Rider MVI II, Market Value Index II. (Tariff filed October 1, 2002)	)	Docket No. 02-0672 (Cons.)

Rebuttal Testimony of

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Q. Please state your name.

A. My name is Paul R. Crumrine.

Q. Are you the same Paul Crumrine who previously submitted direct testimony in this proceeding?

A. Yes, I am.

Q. What is the purpose of your rebuttal testimony?

A. My rebuttal testimony has several purposes. First, I will summarize Commonwealth Edison Company's ("ComEd") response to the testimony submitted by the RES Coalition and some of the other intervenors. In particular, I will respond to claims that mischaracterize how the market value of the electric utility's power and energy that it would have used to supply the requirements of customers who opt for delivery services is properly determined, as well as to testimony that persists in confusing this concept with various other costs that Retail Electric Suppliers ("RESs") may incur in serving their supply customers.

Second, I will respond to the notion that utilities have an incentive to propose market value index ("MVI") methodologies that systematically understate the true market value. In fact, ComEd's intention and its incentive, which it shares with customers, is to determine market value as accurately as possible. By contrast, RESs have a strong motive for artificially inflating the MVI.

Third, I will review adjustments to the MVI proposed by other parties that ComEd is willing either to accept or discuss.

Fourth, I will clarify several ComEd proposals that other parties are misinterpreting, and explain several additional reasons why other intervenor proposals should be rejected.

Finally, I will address the suggestion made by the RES Coalition that the Commission rescind its decision in Docket No. 02-0479 under certain circumstances and their comments on the possibility of returning to the flawed Neutral Fact-Finder ("NFF") process for divining market value.

Q. What other witnesses are presenting rebuttal testimony on behalf of ComEd?

A. ComEd is also presenting the rebuttal testimony of Mr. William McNeil. He explains why the "unexplained residual" claimed by the RES Coalition does not in fact exist. In addition, ComEd is presenting the rebuttal testimony of Dr. Karl McDermott. Dr. McDermott addresses why the adjustments proposed by intervenors are wrong from an economic perspective. Finally, ComEd is presenting the testimony of Ms. Cheryl Beach of FTI Consulting. Ms. Beach conducted an initial analysis of the data and workpapers provided by Dr. Ulrich on behalf of the RES Coalition, the Retail Power Index ("RPI") relied on by Mr. Sharfman who testified on behalf of BOMA, and the claims of Dr. Grace from the Illinois Energy Consortium. She explains the flaws in the analyses presented by each of these witnesses.

Q. Are there any practical limitations on the scope of this testimony?

A. Yes. In response to its proposal, ComEd received about 400 pages of testimony and attachments the week before Christmas. The filing omitted substantive appendices to the

Ulrich testimony, on the purported grounds that they were highly confidential, although they appear to have contained only aggregated data. Moreover, although ComEd asked in advance, the filing was not accompanied by the relevant workpapers. Given the RES Coalition's position on confidentiality and the time constraints, ComEd was forced to retain an expert to review what data were available under a confidentiality designation. In addition, ComEd was unable to obtain timely and complete responses to other important data requests. Thus, while I view ComEd's response as comprehensive, ComEd, of necessity, has not responded in testimony to every argument made by our opponents. The fact that there is no response to a particular argument or statement does not mean that ComEd agrees with or accepts it.

I.

OVERVIEW OF RESPONSE TO PROPOSALS FOR ADDERS

Q. **Please summarize ComEd's overall response to the proposals by the RES Coalition, BOMA, and Trizec to significantly increase calculated market values through the use of additional adders.**

A. The requests for these adders are simply grabs for subsidies, efforts to obtain an MVI that is not based on the real value of the power and energy that would have been used by utility customers, but is instead based on a number that assures the RESs of increased profits, regardless of their ability to compete against real market prices and non-price attributes via flowing power or PPO assignment. The artificial, unsupported increases in the MVI proposed by the RES Coalition would likely harm competition. The Commission should not accept suggestions for adders, which as I explain further below, are inconsistent with the Act, inadequately supported, and detrimental to both customers and utilities.

I emphasize that the MVI methodology, with the changes proposed by ComEd is reasonable and consistent with the Illinois Public Utilities Act (the "Act"), and with the Commission's prior orders. Just over a year ago, the Commission accepted the basic MVI methodology, concluding that it measured the appropriate market value as well as then possible. Contrary to the statements made by RES Coalition witnesses O'Connor and Gale, the Commission did not find that the MVI methodology it approved was inherently or significantly flawed. Rather, it rejected various adjustments proposed by the RESs in that proceeding as unsupported by adequate evidence (the evidence was inadequate despite the fact that the Commission at the request of NewEnergy reopened the proceeding to give those parties seeking modifications an additional chance to support their claims). Recognizing the newness of the methodology and the ongoing change in energy markets, the Commission called for this follow-on proceeding to evaluate how the MVI methodology was functioning and to consider possible improvements. It should also be recognized that this proceeding is progressing on a track faster than was originally contemplated by the Commission. The sunset date for the tariff is May 2004, while this proceeding is scheduled in a manner that any improvements may be implemented prior to this coming summer rather than waiting until summer 2004.

ComEd, in its October 1, 2002 filing, identified various improvements that are consistent with the original purpose of the MVI methodology and that incorporate new data that have become available. In order to respond to concerns raised by various customer groups and RESs, ComEd even proposed two changes in its tariffs that it could not be ordered to make under the Act. That is, although the Act only requires ComEd to calculate individual CTCs for customers of 3 MW and above, ComEd proposed to do so for all customers with loads of 1 MW or above. Also, although the Act does not require ComEd to offer a multi-year CTC, ComEd proposed to offer such an option in its Rider CTC-MY. ComEd has demonstrated with its proposals its willingness to improve its methodology and to work with others to identify appropriate adjustments and tariff amendments.

The RES Coalition, however, urges the Commission to radically depart from past methodologies and normal standards of rigor, and layer onto the values derived from actual market prices a plethora of "adjustments" that would inflate the load weighted MVECs for the current Period A by some 52 to 62% – or by roughly 60% for customers with demands between 400 kW and 10 MW.[1] The magnitude of this inflation would swamp most real variations in market price. Moreover, the specific adjustments proposed by the RESs, like the RES proposals in the last MVI proceeding, are inadequately supported by either a coherent theory or factual evidence. Several of the proposed adjustments include costs (real and alleged) that are already reflected in and credited through delivery services rates, as well as alleged RES costs that are unrelated to the value to the utility of the power and energy freed up when customers leave ComEd. In

[1] The effects of the RES Coalition's proposed 15-mil adder, when expressed as a percentage increase, can become confusing because the magnitude of such increases depends upon the specific MVECs to which the 15 mils is being compared. In an effort to avoid confusion and simplify the testimony, ComEd will (1) note its use of only current (2002) Period A MVECs as the basis for comparison and (2) from this point forward, simply refer to the nearly 60% increase that would result if 15 mils were applied to the load-weighted MVECs for customers with demands between 400 kW and 10 MW. Note that the customers within this demand range represent a very competitive segment of the market, which should place the percentage impact into better perspective.

fact, about half of the proposed inflation is for "costs" that the RESs cannot even identify, but ask the Commission to simply infer exist. Several other parties closely aligned with the RESs also support some of these adjustments, but even their testimony (which is also unsupported) does not request an adder of the same magnitude. Their argument stems from the erroneous assumption that market value is to be designed to reflect RESs' costs of serving retail customers. Not only are these proposals unjustified on their own terms, but together, their sheer magnitude belies their validity: just back in mid-2001, the Commission approved an MVI methodology that addressed almost every issue now before the Commission. There is simply no basis for believing that the MVI methodology approved by the Commission was as fundamentally flawed as these parties claim.

II.

RESPONSE TO ADJUSTMENTS
TO THE MVI METHODOLOGY PROPOSED BY INTERVENORS

Q. Please provide an overview of the testimony filed by the RES Coalition.

A. As I noted earlier, the RES Coalition seeks to inflate the market value by a much greater amount than ever proposed before or proposed by anyone else in this proceeding. Through several panels, the RES Coalition argues that a panoply of "costs," many of which do not relate to the value of the freed up power and energy, should be layered on the actual market price data. Collectively, it is a spaghetti bowl of adders – that includes costs already in the delivery rates and costs that are assumed to exist although their components cannot even be identified – thrown against the wall in the hopes that, despite the overall mess, something will stick. The proposals are poorly supported and internally inconsistent. Indeed, at the bottom line, the RESs' own numbers do not add up.

The RES Coalition supports its position, in part, with the *in terrorem* notion that the competitive market in Illinois is poised for disaster if their demands are not met. This is simply not supported by the facts. Since the opening of the retail market, the number of customers selecting unbundled products has grown steadily, to significant proportion. Over 40% of all kilowatt-hours sold at retail to non-residential customers in ComEd's service area involve delivery services. RESs in ComEd's service territory are now supplying the equivalent of 85% of the load of Illinois Power. Illinois alone accounts for some one-sixth of the unbundled retail load in the nation. And, new ARES are seeking to enter the Illinois market, with another approved by the Commission as recently as December 30th.

The notion that this all happened – as Mr. Gale and Dr. O'Connor suggest – because of "market intervention" and the good luck of market price swings is equally unfounded. The RESs should be reminded that there were no "interventions" in 1999 and that the "intervention" in 2000 was nothing but an offer to sell power and energy at wholesale at the same price as RESs could take assigned power and energy under the PPO. In addition the 2002 "intervention" was, as explained below, of a far smaller magnitude than the proposed adders.

I will review many of the flaws in the RES Coalition's analyses, first by reviewing each of the testimonies filed and then addressing specific issues.

Q. Please review the testimony of RES Coalition panel Brent Gale and Phillip O'Connor.

A. Mr. Gale and Dr. O'Connor provide an overview of the various pieces of testimony filed by the RES Coalition. In sum and contrary to the language in the Act, they want the MVI to reflect the "true cost of serving retail customers" as the RESs perceive those costs, not the value of the power and energy that would have been used by the utility to supply the customers had they not taken RES supply. In doing so, they are boldly asking the Commission to directly subsidize their businesses at the expense of ComEd and customers.

Mr. Gale and Dr. O'Connor point to the unprecedented drop in market prices from early 2001 to early 2002. During that time period, the market price for electricity dropped precipitously, by nearly 50% for some products. They look for the largest difference between the actual market price and the MVECs set for June 2001 to May 2002 and determine from that difference that the MVI methodology is somehow "incorrect" by an amazing 15 mils per kWh (1.5 cents). This statement cannot stand up to even simple scrutiny. The current MVEC for the 1-3 MW customer class is approximately 25 mils (2.5 cents). Thus, the RESs claim that the current methodology is off by an astounding **60%** error! If the methodology were off by that much on a consistent basis, there is no way that ComEd would have experienced nearly 22,000 customers on delivery service, with over 12,500 customers and over 14.8 billion kWh of direct supply by the RESs. (By comparison, Illinois Power's <u>entire</u> system encompasses 18.9 billion kWh.)

Taking the 15 mil adder as a starting point, Mr. Gale and Dr. O'Connor then attempt to backfill support for the request with a laundry-list of "technical modifications." These include the following:

1. Cost of generation capacity and reserves (no value given)
2. Revised basis adjustment for Cinergy vs. ComEd (0.88 mil estimate)
3. Placeholder for future PJM costs (no value given)
4. Adjustment for the "cost" of energy imbalance (no annual value given)
5. Adjustment for the "cost" of odd lot premiums (0.55 mil estimate)
6. The coincidence of peak demand and peak prices (no value given)
7. Modification of sales & marketing cost allocation (0.26 mil estimate)

However, even apart from individual analytical, legal, and evidentiary flaws in these proposed "adjustments" which both Mr. McNeil and I discuss, and the lack of even ballpark estimates for many of them, the effort is not successful on its face. While the RES Coalition claims to have accounted for 7 mils of the 15 mils they have identified, their identified adjustments do not add up to this 7 mil value. Of course, on top of that 7 mils, the panel asks the Commission to provide their companies an **additional 8 mil** subsidy, described as an "unexplained residual." I discuss the lack of support for their "residual" further below.

The RES Coalition does support ComEd's effort to provide a multi-year CTC lock-in in the Company's proposed Rider CTC-MY. However, Mr. Gale and Dr.

O'Connor also ask for an additional adder for customers that select a multi-year CTC lock-in. They ask for an additional 1.4 mil adder for each year that the customer would stay off ComEd service. Thus, a two-year commitment would get a 2.8 mil adder and a three-year commitment would receive a 4.2 mil adder. This adder would be cumulative and on top of the 15 mil adder they already request. Not surprisingly, they provide absolutely no analytical support for either the 2.8 mil or 4.2 mil multi-year adder. It is simply thrown "against the wall."

Q. Please summarize the testimony of Dr. Marc L. Ulrich.

A. Dr. Ulrich presents what he calls an "objective" calculation of two "would have been" MVECs using "confidential" contract information provided by RES coalition members – one calculation using an "MVI like" methodology and one using an "NFF-like" methodology. Dr. Ulrich's testimony, however, merely describes his data, much of the substance of which he did not release. The Bollinger, Goerss and Spilky panel, rather than Dr. Ulrich, "interpret" the results. It is noteworthy that the data does not identify the nature of the contracts, or their timing, and does not include the range of contracts that would be reviewed by a neutral fact-finder. In particular, Dr. Ulrich excluded wholesale contracts, which are included in any analysis performed by a neutral fact-finder, claiming that "the RES Coalition did not have access to wholesale contracts" (Ulrich line 112). I find this statement strange, since the RESs procure their power through wholesale contracts and their claims regarding the costs of such contracts underlie many of their other proposed adjustments.

Dr. Ulrich also excluded from the NFF study about 80% of the contracts that were in effect as of May 31, 2002. Even fewer contracts were used in the "MVI study". Presumably, this was due to the parameters the RES Coalition imposed on the study, which are questionable. For example, it is unclear why contracts extending through the applicable period (*i.e.*, beyond May 15, 2002) were excluded from the RESs' NFF study based on when they were entered (*i.e.*, before September 15, 2001). Moreover, we cannot verify whether all of the customer contracts meeting even the RES Coalition's narrow study parameters were submitted and considered by Mr. Ulrich. It is common knowledge that customers have been entering into RES contracts for power and energy at above-market prices for some time. Evidence for this common knowledge is that if customers were not entering into such contracts, then their current CTC would be roughly in sync with the price of their <u>RES-supplied power and energy</u> and we would not have heard of <u>RES customers</u> paying more than bundled rates (please see the legislative inquiry for details). In fact, one customer (a large hotel downtown) publicly stated that he entered into a <u>RES</u> contract in the <u>late spring of 2002</u> that resulted in that customer receiving savings for one month (May 2002) and paying more for the months thereafter. Perhaps this is why the RES did not show us power and energy contracts they entered into just prior to April 1, 2002 that reflect "similar forward market prices" (Spilky line 829) to the current Period A market index – not their own "sales" contracts (see Ulrich page 4).

Q. Please summarize the panel testimony of Mario Bohorquez, Rodney Boyle, & Thomas Leigh.

A. The testimony of the Bohorquez panel suggests that ComEd's MVI formula needs to recognize the cost of generation capacity to represent costs that may be imposed by PJM, even though those costs, if any, do not occur until at least early 2004. They do not recommend a specific value, or a methodology. I address a portion of this issue below, and Mr. McNeil also address this issue in part.

The Bohorquez panel also asserts there are problems with off-peak wrap prices in the proposed MVI methodology and suggest monitoring the depth of data and establishing values through a competitive auction if data are inadequate. In addition, they suggest a modification of the basis adjustment because they believe that the ComEd basis adjustment does not adequately reflect liquidity risk differences between Cinergy and ComEd. They propose an adder of 0.88 mils. Mr. McNeil explains why this adder is without merit.

Finally, they express concerns that ComEd failed to address the need to make further adjustments to the MVI methodology once it becomes an active member of PJM. They recommend that a "placeholder" for PJM/MISO costs be incorporated into the appropriate tariffs. Their recommendation does not explicitly distinguish between delivery services, *i.e.*, transmission costs and costs that they claim reflect increase energy values. Moreover, they do not make clear whether by a "placeholder" they mean a numerical adjustment unrelated to any current costs or simply a statement that any future PJM costs will be considered when and if they are imposed. Mr. McNeil responds to this issue.

Q. Please respond to the panel testimony of Wayne Bollinger, Keith Goerss & Richard Spilky.

A. The testimony of the Bollinger panel attempts to support the "technical modifications" associated with:

1. energy imbalance risk management (no annual value given)
2. costs associated with purchasing odd lots (0.55 mil estimate)
3. the coincidence of peak demand and peak prices (no value given)
4. the allocation of sales and marketing expenses (0.26 mil estimate)

Mr. McNeil will respond to much of their argument. I will address a portion of their claims concerning energy imbalance, which confuse delivery and energy costs, confuse RES costs with energy value, misinterpret ComEd's retail imbalance service and charges, and misunderstand ComEd's state-jurisdictional rates with respect to those charges.

In addition, the Bollinger panel uses the results of Dr. Ulrich's analysis to assert that the MVI methodology does not capture the actual cost or value of energy delivered to retail customers. They also recommend lowering the threshold for custom CTCs to 400 kW and setting the MVECs and PPO prices on a quarterly basis, rather than on the current Period A & B process. Finally, they oppose many of ComEd's proposed refinements to the PPO, including the proposal to move the price set-up to February 1st and restrict PPO enrollment for Period A after the 60-day enrollment period.

Q. The RES Coalition's Gale panel (*see, e.g.*, at 3-4, 20), as well as BOMA witness Sharfman (at 3-4, 10, 12-13), and IEC witness Grace (at 10), contend that ComEd's

MVI methodology is harming competition by producing CTCs that are too high and Rider PPO prices that are too low. Do you agree with these contentions?

A. No, I do not. The theme underlying these contentions – that competition is being undermined – is based on a fundamental misunderstanding of Illinois' approach to competition. That approach is not one of promoting competition at all costs. Rather, Illinois has been following a more balanced approach, which provides for an orderly transition to competition during which utilities are able to recover CTCs. This approach is consistent with the legislative findings in the Act, which encourage the development "of an effectively competitive electricity market that operates efficiently and is equitable to all consumers," 220 ILCS 5/16-101A(d), and of a market where suppliers compete by developing "new products and services," and by keeping their costs low, 220 ILCS 5/16-101A(b). CTCs and a properly-priced Rider PPO help promote this type of competition – namely, competition where new entrants are encouraged to keep their costs low and compete by developing new service offerings.

Q. Has Illinois' orderly transition, using CTCs, in fact harmed competition?

A. No, it has not. Competition has grown in Illinois, while utilities have collected CTCs. In fact, as noted above, approximately one-sixth of all switching from bundled service to delivery services nationwide has occurred in Illinois. Moreover, most of that switching has occurred in ComEd's service territory, even though ComEd has the highest CTC of Illinois utilities.

Q. Please comment on their claims (Gale Panel 27-28) that the number of accounts on RES supply dropped by 274 and the number of accounts on Rider PPO supply increased by 308 during the months of September and October 2002.

A. A 274 customer reduction is actually quite small. It represented only approximately 2% of RES customers during the period, focused primarily in the small, less than 400 kilowatts of demand customer classes (who constituted 252 of the customers who dropped *off* RES supply), and stemmed in large part from the business decision of a single RES. This minor change occurring at a single point in time indicates little of the overall development of the competitive market in ComEd's service territory.

Q. The Gale panel suggests (at 3, 7) that the Commission should adopt the RES Coalition's proposals in the name of promoting competition, and repeatedly complains (*see, e.g.*, at 20, 30), as do Mr. Sharfman (at 4, 6) and Dr. Grace (at 5), about the difficulties of competition. Please comment.

A. The Act does not envision competition as being easy. Nor does it sanction artificially inflating market value to support a vaguely defined concept of "promoting competition." Rather, the focus is on affording an opportunity to have efficient and effective competition. As noted above, such opportunity clearly is available.

Thus, under Illinois' approach to competition, suppliers are expected to compete on the commodity, and to compete by bringing value to the customer in other ways. Competitors are expected to manage their own supply, and their supply portfolio management, therefore, is their own issue. As ComEd witness William McNeil describes in more detail in his rebuttal testimony, some of the risks that the RESs have identified –

including energy imbalance and peak prices during periods of peak demand (Spilky panel at 6) – arise from these competitors' own particular supply portfolios and portfolio management decisions, such as their decisions not to purchase a shaped product to supply their load or not to update load forecasts as allowed by ComEd.

Moreover, RESs actually have certain advantages already. For instance, they have pricing flexibility, which allows them to compete more effectively than ComEd. Furthermore, the CTC formula already contains an advantage (or "headroom") for competitive suppliers – namely, the mitigation factor – and this advantage is growing over time, as the Act provides for increases in the mitigation factor over time. In fact, the mitigation factor for non-residential customers just increased from 8% to 10% on January 1, and will increase further to 11% and 12% in 2005 and 2006, respectively. In contrast, nothing suggests that the market value is supposed to be – or even can be – yet an additional source of headroom for RESs.

Q. The Gale panel also challenges ComEd's MVI methodology by suggesting (at 16, 19) that the Company is simply using "raw" and "plain vanilla" wholesale data for computing the market value. Are these suggestions correct?

A. No, they are not. ComEd uses available data to model the value of the freed up retail supply. Where monthly block prices are used as starting points, they are appropriately adjusted. Adjustments include a "basis adjustment," which reflects the relatively minor differences between prices for delivery at the Into Cinergy hub and the prices for delivery in ComEd's service territory. In addition, each monthly price is shaped further into distinct hourly prices, which are then weighted with actual hourly retail customer loads.

In addition, the MVI methodology adjusts for price and load uncertainties, which can arise from unexpected variations in weather, customer usage, supply availability, and operational contingencies. Prices are adjusted still further for transmission and distribution line losses experienced in delivering power to the customer's meter. On top of all of the foregoing, prices are load-weighted to reflect the customer's or customer classes' seasonal pattern.

In sum, the MVI methodology, with the changes proposed by ComEd (and any agreed to with Staff), captures the full market value of the actual, retail load being freed up. Such value is not based on some wholesale block or "fire sale," even if that exceeds what is actually recovered from ComEd. As a result, contrary to the Gale panel's repeated claims (at 4, 25, 29), ComEd's proposed methodology is not in any way deficient.

Q. **The Gale panel contends (at 6) that the RES Coalition's proposals would cover 7 of the 15 mils by which the Coalition claims that MVECs are underpriced, leaving 8 mils of so-called "residual" to be reflected through an 8-mil adder. Is there any support for such an 8-mil adder?**

A. No, there is no support for such an arbitrary 8-mil "residual." It is based solely on the Gale panel's claims (at 25-26) that switching accelerated when the gap between market values and MVECs was 15 mils in September 2001, not on any showing that direct customer supply is unprofitable for RESs or such a gap was necessary.

Q. **Does the Gale Panel's claim (at 25-26) about accelerated switching in September 2001 suggest that ComEd's MVI is flawed?**

A. No, it does not. The Gale panel testimony merely highlights that: (1) MVECs represent snapshots of market price expectations at a given point in time, which in ComEd's case is during a 20-day period; (2) after the MVEC snapshot is taken under ComEd's (or any other utility's) MVI methodology, the prevailing market prices may float down or up; and (3) the unprecedented decline in prevailing market values during 2001 relative to the applicable MVECs, coupled with the availability of PPO, influenced RESs' decisions to use market resources or Rider PPO to supply their customers, as Mr. McNeil has explained. That is, the experience in 2001 merely demonstrated that there is a stronger economic incentive for RESs to obtain supply from the market instead of via the PPO when power is available at prices significantly below the applicable MVECs.

In fact, the historical review of competitive conditions and switching performed by the Gale panel (at 22-28) demonstrates how market prices have floated both down and up after the MVECs were set and how the RESs have responded to such changes. All the Gale panel has done is point to one of the highest gaps between MVECs and subsequent market prices. That pointing, however, lends no support to their incredible notion that the MVI methodology was at least 60% (or 33% by their measure) off target. It simply shows that market prices dropped dramatically and RESs received an *unanticipated* benefit. Moreover, CTCs were lower than they would have been had the lower prices that subsequently materialized been used. Although this could be viewed as a detriment to the utility, it does not show that the 2001 Period A MVECs were in any way flawed when the snapshot was taken. Nor does it show that there are insufficient economic incentives under the MVI methodology for RESs to supply customers directly, particularly if supplies are lined up by RESs during the snapshot period.

Q. Do actual data show that a 15-mil adder is needed to have customer switching?

A. No, they do not. In fact, the evidence shows that 15 mils is by no means necessary to encourage RESs to rely solely on market supplies, instead of Rider PPO, for supply. Significant switching took place during the months after the 2001 Period A MVECs were set, even though the gap between MVECs and prevailing market prices was considerably less than 15 mils.

For instance, during May 2001 alone, RESs added 1,273 customers and over 2,200 gigawatthours of annual sales to their supply rolls. By May 31, 2001, RESs had taken supply responsibility for over 4,100 customers, representing 15% of all non-residential annual sales in the ComEd system (over 9,000 gigawatthours). This is a considerable supply responsibility to accept without hope of a reasonable profit margin. Hence, the gap that developed between the 2001 Period A MVECs and the prevailing market prices just made an already profitable activity more profitable for RESs. When coupled with the fact that there were also nearly 300,000 more non-residential customers eligible for delivery service as of January 1, 2001, it is no wonder that the RES supply activity began to take off during this time period in 2001.

Moreover, throughout the long descent in wholesale market prices, which began around mid- to late-May 2001, such prices fluctuated significantly from day to day, and month to month, at times narrowing the gap between MVECs and market prices to considerably less than the 15-mils peak experienced in September 2001. Nevertheless, from May 31 through September 2001, almost 1,000 customers and over a 1,000 gigawatthours in annual sales were added to the RES supply rolls.

Furthermore, the Gale panel itself makes clear (at 27) that 15 mils are not necessary. While claiming that the confidential offer made by Exelon Generation (not ComEd) to RESs in 2002 was "well short of curing the full deficiency" in the MVECs, they readily note that it "did permit RES to avoid shifting large numbers of customers to the PPO and allowed for many scheduled deals to go forward." As disclosed by Trizec witness Turner (at 5), the offer Exelon Generation extended to RESs in response to the increase in market prices after 2002 Period A MVECs were released effectively added 5 mils to the MVECs. Depending on the market prices prevailing at the time RESs accepted Exelon Generation's offer, I suspect much, but not all, of the 5-mil offer was offset by the fluctuation in market prices, leaving probably around 2 mils of additional value for RESs. Aside from the obvious fact that the 5 mils extended to RESs was considerably less than the 15 mils they are currently seeking – and much of this 5 mils was offset by market price fluctuations – it should also be noted that the application of ComEd's technical improvements to the MVI back in April of 2002 would have cured most, if not all, of the RESs' perceived deficiency by adding 2.5 mils to the value of MVECs.

Q. More generally, does any static adder, 8 mils or otherwise, make sense in a dynamic market?

A. No, it does not. Given that MVECs, by definition, are static once set, market prices naturally will fluctuate around them. In fact, the RES Coalition's own testimony makes clear that such fluctuations can bring prices down far enough even to please them, without any sort of adder. Indeed, the bulk of the RES Coalition's argument for the adder is predicated upon the level of switching that occurred in the presence of a 15-mil gap between MVECs and prevailing market prices – again, without an adder. Because market values can be expected to fall relative to the MVECs again in future years, there is no logical reason for any static adder.

Q. RES Coalition witnesses Mario Bohorquez, Rodney Boyle, and Thomas Leigh (the "Bohorquez panel") assert (at 4-5, 7-10) that ComEd's proposed MVI methodology needs to be revised to reflect capacity costs, and, as noted above, the Gale panel asserts (at 17-18) that ComEd's MVI methodology does not adequately reflect power costs, as required under the Act. Are these assertions correct?

A. No, these assertions are incorrect for a number of reasons. First, capacity costs already are sufficiently reflected in the current MVI methodology. As Mr. McNeil explained in his direct testimony and Mr. Stephens of IIEC reiterated, the primary market data that ComEd uses with its MVI methodology is based on a firm delivery product, which involves a contract in which the seller guarantees delivery through a liquidated damages clause. Because the liquidated damages involved are too significant to run the risk of incurring them, the seller must either own assets or have contractual rights to capacity to provide the product. That is, the seller has to have capacity. As a result, the cost of capacity already is part of the price for the firm delivery product, and thus ComEd's MVI methodology need not – and should not – be adjusted.

Second, as the Bohorquez panel even recognizes (at 7-8), RESs are not required to procure capacity to serve retail customers in ComEd's service territory. ComEd, as a transmission provider, does not require suppliers to identify specific resources to obtain firm transmission reservations. Rather, ComEd accepts liquidated damages contracts for this purpose. As a result, RESs do not need to incur separate or additional capacity costs to flow power through ComEd's control area.

Third, because of ComEd's "provider-of-last-resort" ("POLR") obligations, most customers who leave bundled service for delivery services can return to bundled service or PPO. The Commission's recent order in Docket No. 02-0479 addressed this POLR issue, but only for customers with more than three megawatts of demand. Thus, ComEd still has to maintain capacity for all of its other customers who leave bundled service, as such customers may return and ComEd will be obliged to provide power and energy to them. Given that market value measures freed-up power and energy, it would be improper to inflate that value for capacity costs that have not been freed-up.

Q. What would be the effect on the CTC of making an additional adjustment to include capacity costs in the market value?

A. Because market value already includes capacity costs, adding such costs again would produce an illegitimate double-credit against the CTC.

Q. Does ComEd's position on capacity costs put the Company at odds with Illinois Power and Ameren – the two other utilities participating in this consolidated proceeding – which have each suggested additions to market value for capacity costs?

A. No, ComEd's position is not at odds in this respect with either Illinois Power's or Ameren's position. This is because unlike those two other utilities, ComEd accepts liquidated-damages contracts including capacity, and thus does not have a separate capacity cost. Illinois Power and Ameren, on the other hand, apparently do have such a separate cost, and therefore are in fundamentally different positions.

Q. The Spilky panel (at 12) claims that even where there are imbalance credits, in most cases, they are exceeded by delivery charges paid by the RES. Do you agree?

A. No, I do not. Whether the credit paid by ComEd to the RES is greater or less depends entirely on whether the price that the supplier paid for the excess energy is greater or less than the spot market prices on which the imbalance costs are based. Sometimes the spot market price will exceed what the supplier paid, and other times it will not. In essence, what the Spilky panel has done here is describe two of four possible cases. The two that they have identified are (1) oversupply with energy purchased above the spot market prices, and (2) undersupply with energy purchased below the spot market prices. But there are two other possible cases, which are the reverse of the two – namely, (3) oversupply with energy purchased below the spot market prices, and (4) undersupply with energy purchased above the spot market price. In the first two cases, the RES may (if it does not otherwise mitigate its exposure) come out behind; but in the third and fourth cases, the RES comes out ahead.

Presumably, the Spilky panel has only pointed out the first two possibilities – the ones where RESs can come out behind – to try to justify an imbalance adder. Yet there is no such justification, as logic dictates that the third and fourth cases are at least as likely and, therefore, the cases should balance out. Indeed, the RES should be able to do better than even, since they are at least to some degree in control of their imbalance exposure while ComEd certainly cannot change anything, given that it has to pay spot market prices. Thus, if there is any tilting one way or the other, that tilt is most influenced by the RES, which manages its own supply portfolio and its own schedules. Given that the RES is a profit-oriented entity, it would be expected to manage that portfolio so that the error would tend toward cases (3) and (4) above. As long as the RES were scheduling in good faith, ComEd could do little about such activities.

Q. The Spilky panel further contends (at 12-13) that ComEd's adjustments for imbalance adders and discounts would be made using "actual historical data," which would not "capture the cost associated with the risk that future charges could be greater than those previously incurred." Does this contention justify a premium for imbalance?

A. No, it does not. While ComEd does use actual historical data, it rolls the actual costs forward every year. Thus, the future charges are then in fact captured. Moreover, the future charges may actually be less than the actual historical ones. In fact, one would expect that the chances of the charges being greater or less to be even. Given that there is an even chance of the future charges being less, there is no justification for a premium on the relative value of the future charges (to previous ones), either.

Q. What effect would including an additional adjustment for imbalance have on CTCs?

A. An additional adjustment for imbalance would result in double-counting of credits against the CTC. This is because, as noted above, adders or discounts already are part of the delivery service charge, and costs related to procuring and managing supply already are captured in market value. Thus, any additional adjustment for energy imbalance should be rejected.

Q. **Do you have any comments on the Spilky panel's specific suggestion (at 9-10) of basing an imbalance adjustment on the 0-25 kilowatt demand class?**

A. Yes. First, for all of the reasons listed above and in the testimony of Mr. McNeil, the proposed adjustment is improper and should be rejected. In addition, there is no apparent justification for using the 0-25 kilowatt class as a proxy for all customer classes.

Q. **More generally, the Gale panel contends (at 4-5, 34) that the Commission's last MVI order found ComEd's MVI methodology deficient. Is that correct?**

A. No, it is not. The Commission's last MVI Order did not find ComEd's MVI methodology deficient. In fact, it approved that methodology for determining the retail value of the freed-up electricity. As I discussed in my direct testimony, the Commission did recognize that the ability to set market value might improve over time, as better data became available and as market participants gained experience, and therefore provided for re-examination of the process via the filing of new MVI tariffs in 2002 (the tariffs at issue in this proceeding), and requested that interested parties participate in workshops to discuss potential amendments to the tariffs. These efforts on behalf of the Commission were in recognition of the evolving nature of the MVI, particularly given its relative newness and the continuing accumulation of data. Such efforts were not, however, in any way tantamount to a finding of deficiency.

Q. The Spilky panel suggests (at 49-52) that ComEd's Rider PPO is intended to be an option for RESs to arbitrage against the market. Do you agree with this suggestion?

A. No, I do not. Contrary to the Spilky panel's implication, Rider PPO is meant to be an option for <u>customers</u> to take delivery services with a tariffed supply service. Rider PPO is not meant, however, to be a mechanism for RESs to game the system. Unfortunately, as both my colleague Mr. McNeil and I pointed out in our direct testimony, such gaming has been occurring, and thus ComEd's suggested structural changes to Rider PPO are appropriate for reining in such gaming and helping ensure proper use of the Rider PPO.

The Spilky panel is quite coy about RES gaming. They do make a few statements about it (at 51-52) – such as observing that there are certain limitations on switching on and off Rider PPO, saying that they are "unclear" about the definition of gaming, noting that they have not been supplied with a specific set of examples, and claiming that it would be "quite risky" for them to buy supply and then sell it at a profit after moving customers onto Rider PPO. But the Spilky panel does not deny the practice – under any sense of the term. In fact, their subsequent reference (at 52) to Section 16-110(b) of the Act (noting customers' ability to sell or assign their interests in power or energy purchased under the PPO) suggests that the Spilky panel actually appears to be endorsing gaming.

Q. Please respond to the adjustments to the MVI methodology proposed by the Building Owners and Managers Association of Chicago.

A. The Building Owners and Managers Association of Chicago ("BOMA") presented the testimony of Guy Sharfman. Mr. Sharfman argues that ComEd's proposed methodology results in values that are "too low" and do not represent the price to serve retail load. He suggests that the market value should reflect what he calls the "true" costs of serving retail customers. Mr. Sharfman bases these claims on an attempt to analyze and apply to Illinois the "spread" available in other open access states between regulated prices and what a competitive supplier offers. His analysis is flawed for many reasons.

First, his analysis provides absolutely no data as to the value to ComEd – or any other Illinois utility – of power and energy that they would have had to provide, nor does he analyze prices that RESs are *actually offering in ComEd's service territory*. Further, Mr. Sharfman argues that all of the costs that a RES incurs to provide retail service to customers should be included in the determination of MVECs. He states that the MVEC should be increased to reflect what he calls "retail uplifts," including the RESs' own profit margin. Mr. Sharfman does not explain how this squares with Illinois law or its transitional structure. Moreover, Mr. Sharfman does not provide a value for these "uplifts," nor does he give a specific list of those "uplifts" that he considers appropriate. Lacking real data, he boldly suggests that the RESs just estimate these "retail uplifts" and that the Commission require utilities to use these unilateral estimates. This is clearly an invitation to mischief, for the RESs to artificially inflate the MVECs and pad their profits at the expense of both ComEd and customers.

Mr. Sharfman's analysis is also replete with irrelevant comparisons. He looks at the spread between retail bundled rates and competitive supplier charges in a way that does not account for significant difference in the applicable state's restructuring provisions. None of the utilities in the comparison has the equivalent of ComEd's PPO. Yet Mr. Sharfman's analysis implicitly equates ComEd's PPO to their bundled retail rates. At a minimum, one should add the over eight mils of mitigation factor for small ComEd customers to the 2.6 cents/kWh these customers pay under the PPO (25 kW to 100 kW customer class beginning January 1, 2003). The resulting 3.5 cents/kWh is much closer to the so-called retail generation rate of the other cities.

Another significant difference is that the other utilities unbundled their bundled rates while ComEd created a distinct set of new open access tariffs. Again, an apples to oranges comparison is being made. ComEd is very proud of the fact that it has much lower bundled rates than many of the other cities in the comparison, on which those retail generation rates are computed. Thus, if one begins with lower bundled rates than other cities, one should not be surprised to find a lower so-called retail generation rate. Also, the method in which each state handles transition charges will affect the comparisons. For example, some utilities collect transition charges over a longer time period than ComEd. Lastly, the RPI does not match with reality. ComEd's service area represents one-sixth of the switching activity in the U.S. This contradicts Mr. Sharfman's analysis.

Q. Please respond to the adjustment to the MVI methodology proposed by Trizec Properties Inc.

A. Trizec Properties Inc. filed the testimony of Roger W. Turner. Mr. Turner supports the technical improvements that ComEd has made to the determination of MVECs that result in the increase of estimated MVECs by about 2.5 mils. However, he argues that ComEd should also be required to layer on an additional adder of about 5.5 mils (for a total of 8 mils) so that, in his opinion, RESs can have an adequate opportunity to beat the PPO and ensure what he characterizes as a "vibrant competitive market." However, Mr. Turner's recommendation is based solely on his subjective evaluation. He does not support his request for an additional adder with any specific analysis, either of RESs' costs or of the value of the freed-up power and energy. He offers absolutely no justification for this value, nor does he provide any study, analysis or report upon which his assertion is based. Nor did Trizec respond to our data request until less than 48 hours before this testimony was due to be filed. Therefore, I have not had a chance to analyze their responses.

Mr. Turner appears to support ComEd's proposal to provide a multi-year CTC lock-in. However, he states that ComEd should expand and modify its proposed multi-year CTC. Mr. Turner acknowledges the value that ComEd's proposal offers customers by permitting them to lock in their CTC for a period longer than one year. But, he claims that the 500 MW cap proposed by ComEd in its experimental Rider CTC-MY is too low. He also suggests that ComEd should offer a CTC lock-in extending through the end of the transition period. His testimony also includes a vague reference to some sort of additional adder to the MVEC that would apply to customers that select a multi-year CTC lock-in. However, he offers no specific recommendation other than his view that this additional adder should be "progressive" and larger for customers that elect to lock-in CTCs for a longer period of time. As with his discussion of an annual adder, he offers no details, nor does he support this suggestion with any analysis or study.

Q. Please respond to the testimony filed by the Illinois Energy Consortium (IEC).

A. The Illinois Energy Consortium ("IEC") submitted testimony of Dr. David Grace. Dr. Grace asserts that the most recent ComEd MVECs were much lower than the prices to retail customers for products of which IEC is aware. He argues that MVECs do not reflect "retail margin adjustments," apparently referring to the costs of RESs to provide and market product and the "margin" or profit that they add in so doing. To correct this perceived problem, he recommends that a factor of 7 mils/kWh be added to the MVEC when calculating CTCs. However, he neither provides any empirical data, analysis, studies or reports to support his assertions nor does he assert that such an adder will necessarily result in a 7 mil savings for customers. Dr. Grace also recommends that MVECs be adjusted for costs that he claims the utility "avoids" by not providing load following services, marketing, and customer service. He also recommends an adjustment related to the 'strike price' of not having to provide a PPO option to customers served by RESs. On its face the IEC proposed 7-mil adder is just as arbitrary as the RES Coalition's proposed 8 mil adder. Once again, these recommendations are made without any analytical support and ignore adjustments already made in calculating the MVECs. Dr. Grace provides no explanation as to why they are consistent with the definition of market value from the Act.

It is unclear what the point of IEC witness Grace's comments are regarding the addition to MVECs of costs ComEd allegedly avoids, when the basis given for the 7-mil adder IEC proposes was the bids it received for service. He offers no quantification of the costs avoided and an extremely low-level of guidance and detail regarding the exact costs he claims ComEd avoids. Moreover, he appears to confuse the odd lot issue, which was raised by the RES Coalition and addressed by Mr. McNeil, with the concept for avoided costs. Furthermore, the types of costs he claims are avoided by ComEd are not, in fact, avoided. ComEd remains the POLR service provider and, as the delivery services provider, continues to incur costs associated with administration of services, enrollment, and the marketing of such services.

III.

CONTRASTS BETWEEN UTILITIES' MOTIVES TO GET THE MARKET VALUE CORRECT AND THE RES COALITION'S MOTIVES TO USE MARKET VALUE FOR THEIR OWN PROFITS

Q. The Gale panel claims (at 19) that ComEd has the incentive to propose an MVI methodology that understates true market value. Please respond to this claim.

A. Contrary to the RES Coalition's claim, ComEd's clear incentive and intention, which it shares with customers, is to determine market value as accurately as possible. Of course, ComEd wants the price set correctly because doing so helps the transition occur as intended. But, setting this price correctly is also in ComEd's own economic interest. If the market value is set too high, ComEd loses CTC revenues; if it is set too low, the Company ends up selling power and energy under its Rider PPO at below-market prices. Either way, not setting the price correctly harms ComEd. In addition, as Mr. McNeil explained in his direct testimony (at 10), getting the price right reduces the ability of RESs to use Rider PPO for gaming. Thus, for multiple economic reasons, ComEd has a strong incentive to get the price right.

Q. How have ComEd's past actions confirmed this incentive and intention to set the market value accurately?

A. ComEd has consistently sought improvements in the procedures used to establish the market values used in the CTC and PPO rates. It was ComEd that proposed that the MVI methodology replace the NFF process back in 2000. As I discussed in my direct testimony, the NFF process was flawed in many respects, including its inability to reflect current market prices, its inability to adjust for seasonal and peak/off-peak differences in prices, its lack of transparency to market participants, and its costliness. ComEd, among others, recognized that these flaws were resulting in poor price signals, and therefore proposed the current MVI methodology to set that value more accurately. The adoption of that methodology has produced a number of improvements, including use of current, forward-looking market prices (with appropriate basis adjustments), customer load-shaping over different periods of time, accounting for price and load uncertainty and greater market transparency. The Commission accepted this MVI methodology, concluding that it measured the appropriate market value as well as then possible.

In addition to producing more accuracy, this methodology has resulted in greater market values than those resulting from the NFF process. This point is particularly significant because if ComEd were interested in keeping the market value low, it surely would not have proposed moving to an MVI methodology that was going to raise that value.

Q. Has ComEd continued to work to set market value accurately in this proceeding?

A. Yes, it has. In this docket, ComEd is once again attempting to set the market value as accurately as possible. Now with the benefits of better data and more experience, the Company is proposing a number of technical and structural refinements for its MVI methodology. As I noted in my direct testimony, the technical refinements should produce higher market values. Again, ComEd would not be making these proposals if it wanted to understate market values.

The Company has worked for accuracy in other ways, too. For example, prior to making its current filing, ComEd attended and participated in multiple workshops sponsored by Staff to discuss various proposals to refine its MVI methodology. Those discussions played a role in the development of the tariffs being considered in this docket. Moreover, as the next section of my rebuttal testimony makes clear, the Company is willing to accept, or at least to consider or discuss, certain adjustments proposed by other parties. Once again, if ComEd did not want to set the market value as accurately as possible, it surely would not have been making all of these efforts to consider and, where appropriate, make additional refinements.

Throughout this process, ComEd, along with Staff and others, all recognized that the MVI could improve over time, as more data became available and market participants gained experience. That is precisely what has occurred here: ComEd has filed tariffs proposing various technical and structural revisions in an effort to improve the methodology. For example, one of ComEd's proposed refinements is to use off-peak forwards instead of historical values. ComEd had agreed two years ago that off-peak forward data were preferred to historical information, but insufficient off-peak forward data were available at that time. Markets have matured and the data now exist.

In addition, ComEd has voluntarily proposed various changes as part of its current filing that should that enhance market development. One such proposal is to calculate customer-specific CTCs for any customer with more than one megawatt of demand. Although ComEd is not required to calculate such individual CTCs for any customer below three megawatts of demand, this proposal would affect approximately 1,400 additional customers. ComEd also is proposing an experimental tariff, Rider CTC-MY, which would permit eligible customers and competitive suppliers to lock-in CTCs for a two-year period. Even though such multi-year CTCs are by no means mandatory, they would benefit such market participants by expanding their ability to obtain price certainty.

Q. The Gale panel argues (at 13) that "it is critical that the market value reflects the true cost of serving retail customers." Does this mean that the RESs share ComEd's incentive and intention to set the market value correctly?

A. No, it does not. In sharp contrast to ComEd and the other utilities, these profit-driven but unregulated enterprises have a strong incentive to inflate market value artificially and inappropriately – in fact, as high as possible without zeroing out CTCs. Such improper inflation reduces the CTC paid to utilities and makes the PPO less attractive. Both of these effects tend to increase customer switching to RESs, which, in turn, are able to raise their own prices artificially because of the artificially raised PPO, in essence transferring the CTCs to themselves. The RESs have consistently acted in keeping with their incentive to inflate market value artificially in the last proceeding and in this one.

In fact, a number of their proposals to inflate the market value were raised, fully considered, and rejected in the last MVI docket.

Q. What are examples of issues already resolved in the previous MVI docket?

A. The following issues were addressed and resolved in the last MVI order:

(1) Whether ComEd shall use data from the Into ComEd exchange or the Into Cinergy exchange. The Order proposed that ComEd shall use data from the Into Cinergy exchange and also use the ICE trading platform as an additional source for on-peak data.

(2) Whether ComEd's proposal to recalculate market values and transition charges twice per year in conjunction with Applicable Period A and Applicable Period B information filings was appropriate. The Commission found that the proposal was reasonable and approved it.

(3) Whether the market value is intended to reflect the wholesale or retail market value. The Commission found that the market values contemplated by the Act are retail market values and the MVI meets that standard.

(4) Whether the following adjustments or adders should be included in the utilities' MVI proposals:

<u>Optionality for Peak Prices</u>

The optionality adjustment was intended to reflect the risk associated with serving uncertain loads. The Commission found that the record did not support a finding requiring utilities to implement an optionality adjustment at the time.

<u>Optionality for Off-Peak Prices</u>

In the last proceeding, the intervenors suggested that the utilities include an adder to account for load uncertainty in their load shaping/price shaping adjustment for off-peak prices. The Commission found that this was the same issue as that brought up under Optionality for Peak Prices and should not be implemented for the same reasons.

Energy Imbalance Costs

Energy imbalance costs are the charges a supplier incurs when the amount of energy consumed by a customer does not match the amount scheduled for that customer. The Commission found that the adjustments relating to energy imbalances is a delivery services issue, not a market value issue and should not be adopted.

Planning Reserve Requirements

It was proposed in the last MVI proceeding that the utilities increase market values used in their proposals to reflect the cost associated with obtaining necessary planning reserves to supply firm retail load. Because ComEd does not require planning reserves, this adder did not apply to ComEd.

Capacity Backed Costs

Another proposed adjustment in the last proceeding was an adjustment to the data to reflect not only the cost of energy but also the cost of acquiring capacity to serve firm retail load. This proposed adjustment did not apply to ComEd because ComEd already accepts financially firm agreements.

Power Portion of Costs Associated With Acquiring Off-Peak Power

This adjustment related to the cost of acquiring off-peak retail load requirements. The Commission found that there was neither an adequate basis for an off-peak adjustment nor an acceptable methodology to implement an off-peak adjustment.

Accordingly, the Commission found that such an adjustment was not appropriate at the time.

Q. Do you agree with the history of market value proceedings that Staff witness Zuraski provides (at 13-16)?

A. In general, I agree with it. I would add, among other things, the Commission, Staff, the utilities, and many other interested groups have expended substantial time and resources on these proceedings. ComEd, Illinois Power, and Ameren have each proposed market value indices that have borne the full scrutiny of the Commission, Staff, and the other parties. Thousands of pages of testimony, days of hearings, and a multitude of briefs have been considered by the Commission in developing and approving the current MVIs. ComEd has nothing to gain from distorting the MVI downward during the transition period. As noted by Mr. Zuraski's testimony (page 9) the average customer's savings under the PPO are independent of market value prices. In other words, switching (and presumably customer savings) will occur even if the market value were artificially low.

IV.

ADJUSTMENTS PROPOSED BY OTHER PARTIES THAT COMED IS WILLING TO ACCEPT OR TO CONSIDER OR DISCUSS

Q. Are there adjustments proposed by other parties in this proceeding that ComEd is willing to accept?

A. Yes. ComEd is willing to accept the following adjustments proposed by other parties in this proceeding:

(1) Staff Modification of the Price Shaping Methodology. Staff witness Zuraski proposes to modify the price shaping methodology by replacing zero and negative PJM hourly prices with the midpoint of (a) the first prior positive hourly price and (b) the next subsequent positive hourly price, on either side of the negative or zero price(s), rather than with the average of all the positive off-peak PJM prices in the month, as proposed by ComEd. ComEd believes Mr. Zuraski's proposal is another reasonable approach, and would be willing to accept Mr. Zuraski's proposal if the Commission believes that such proposal is preferable to ComEd's.

(2) Adders to the PPO administrative fee. Staff witness Schlaf correctly recognizes that if ComEd incurs option costs relating to offering the PPO, it would be appropriate for ComEd to include those costs in the PPO administrative fee. Such option costs are not part of the market value of freed-up energy and power, but are tied to ComEd's Provider of Last Resort ("POLR") obligation. As is explained by Mr. McNeil, these costs are currently embedded in ComEd's PPA and should be allocated to the administrative fee to provide customers with better price signals. A proxy for estimating these option costs is described in Mr. McNeil's rebuttal testimony.

Q. Are there other adjustments proposed by other parties in this proceeding that ComEd is willing to consider or discuss?

A. Yes. ComEd is willing to consider or discuss the following adjustments:

(1) Adjustments to Rider CTC-MY. USDOE witness Swan and others have suggested extending Rider CTC-MY through the May 2006 billing period and removing any limits on the total load allowed under the Rider. It should be noted that ComEd is

not required to offer a longer-term CTC, but is doing so in response to requests from others. In addition, it should be noted that a longer-term CTC exposes ComEd and customers to some risk, given shifts in market prices. (I note that the RES Coalition panel of Bollinger, Goerss and Spilky argues that ComEd incurs no risk by offering a longer-term CTC, but then contradicts itself by arguing that RESs cannot lock in their load a few months in advance because to do so would be risky.) Further, expanding Rider CTC-MY beyond two years would expose ComEd and customers to greater risk because data might not be available for off-peak transactions more than two years in advance. In light of these points, ComEd is not willing to make Rider CTC-MY available for either an unlimited amount of total load or an unlimited amount of time. Nonetheless, ComEd would be willing to discuss these issues with other interested parties to determine whether some mutually agreeable adjustments are available.

(2) Snapshot Period. Several parties object to moving up the existing snapshot period for Applicable Period A, and Staff witness Schlaf objects to customers having to sign up for Rider PPO service by March 31st as a result of moving up the snapshot period. ComEd proposed moving up the snapshot period in response to comments it received from other parties to this proceeding. The March 31st deadline provides all customers the same full two-month period from when Applicable Period A MVECs and CTCs are filed to decide whether to elect PPO service. USDOE witness Swan recognizes this benefit of moving up the snapshot window. However, ComEd would be willing to keep the existing snapshot period for Applicable Period A. In either case, it is important to maintain an enrollment window to limit gaming, and allow ComEd and its supplier to better manage the risks associated with the PPO option.

V.

OTHER PROPOSALS THAT SHOULD BE REJECTED

Q. BOMA's witness Sharfman proposes that PPO Period B should be open to anyone that is eligible to take service under PPO Period A. Do you agree with this proposal?

A. No, Mr. Sharfman misunderstands Applicable Period B. Period B provides customers on bundled rates with a first-time "on-ramp" to delivery services. Applicable Period B only applies to customers who leave bundled rates and elect to take delivery services between the months of September and May. MVECs calculated for Applicable Period A cover a twelve-month period, including four summer months, MVECs calculated for Applicable Period B only cover a nine-month period from September to May. Therefore, Applicable Period B prices are naturally lower than Applicable Period A prices because Applicable Period B includes one summer month as compared to Applicable Period A which contains four summer months. As a result, transition charges for Applicable Period B are higher than those for Applicable Period A and PPO prices are lower. A customer that is on delivery services when the Period A MVECs are set pays a CTC based on the Period A MVECs. A customer that starts delivery services during Period B pays a CTC based on the Period B MVECs, but only until the next Period A MVEC is set. After that time the customer pays CTCs based on the Period A MVEC. Under the Act, PPO prices are based on the MVEC used in the customer's CTC. Customers with Period A CTCs have never been eligible for the Period B PPO prices. As the Commission previously recognized, this approach is the right one and sends customers the right price signals.

<u>Quarterly Snapshots</u>

Q. The Spilky panel proposes (at 53-54) that MVEC snapshots be taken on a quarterly basis. Would this proposal have any demonstrable effect on customer switching?

A. No, it would not. To hedge effectively the risk of the market's moving against the MVECs after the market price snapshots have been taken, RESs could purchase supplies during the snapshot period to some extent, as Mr. McNeil noted in his direct testimony. Yet the RES Coalition's Spilky panel states (at 48) that "[p]rudent portfolio management will prevent a retail marketer from taking a long position during the snapshot period in anticipation of signing-up uncertain retail load." Given this view on procurement during the snapshot period, it is unclear whether more frequent MVEC snapshots would have any value. Indeed, whether the snapshots are taken twice per year or four times per year, the members of the RES Coalition apparently are not inclined to purchase power during the snapshot period. Again, this is presumably due to the existence of the PPO, which serves as a free hedge against shifts in market prices after MVEC snapshots are taken. The PPO allows RESs to wait for market prices to rise significantly above MVEC levels and dump their customers onto the PPO when it does. While this approach may not be irrational from the RESs' perspective, it is not beneficial to long-term market development.

Q. Would quarterly snapshots necessarily mean that MVECs would be closer to prevailing market prices at any given time than MVECs are now?

A. No, they would not. Significant changes in market prices can occur and have occurred over periods shorter than 90 days, as evidenced by Chart 1 in the Gale panel testimony. Thus, updating MVECs quarterly will not guarantee that the MVECs at any given point during a 90-day window are more in line with prevailing market prices than MVECs are now. As a result, there is no guarantee that quarterly snapshots would affect customer switching for this reason either.

Q. Would moving to quarterly MVECs create any confusion on the part of customers in assessing their options?

A. Yes, I believe it would. After nearly three years, customers in the ComEd service territory are just becoming accustomed to biannual snapshots and to change it now, with no apparent value, would create pointless confusion and likely frustrate market development.

CTC Calculation

Q. The RES Coalition's Spilky panel proposes that ComEd (1) calculate individual CTCs for customers 400kW and greater; (2) allow customers to aggregate load to meet the class size requirement for an individual CTC; and (3) make all custom CTCs readily available on PowerPath without any form of password protection. Do you agree with these proposals?

A. No, I disagree with all three proposals. First, as I stated in my direct testimony in this proceeding, ComEd is not required to calculate individual CTCs for customers with less than 3 MW of load. ComEd voluntarily offered to calculate individual CTCs for customers 1 MW and above. ComEd would incur significant administrative costs if it were to calculate individual CTCs for customers below 1 MW as illustrated in ComEd's Response to former Commissioner Kretschmer's Data Request in Docket No. 02-0479, attached hereto as Attachment PRC–R1.

Second, allowing customers to aggregate load to meet the class size requirement for individual CTCs would result in significant administrative costs to ComEd. ComEd would have to monitor thousands of customers, identify the sites that are related to them, monitor the ownership of such sites, and finally, determine whether such sites qualify for load aggregation. In addition, this proposal would allow customers to choose between a class CTC or an individual CTC depending upon which was more advantageous. This type of "gaming" is not appropriate and is unfair to the utility.

Finally, individual CTCs are customer specific. Therefore, ComEd is not allowed to disclose this information. Under Section 16-122 of the Act, "no customer specific billing, usage or load shape data shall be provided [to any alternative retail electric supplier] . . .unless authorization to provide such information is provided by the customer. . .." In the event that a customer authorizes a RES to receive such information, Section 16-122 permits ComEd to charge a reasonable fee for providing such information.

VI.

PROPOSALS FOR RESCISSION OF OTHER ORDERS AND/OR RETURN TO THE NFF

Q. The Gale panel suggests (at 30) that if ComEd does not revise its MVI methodology as they suggest, the Commission treat ComEd's exercise of its statutory right as grounds for rescinding its Interim Order in Docket 02-0479. Do you agree?

A. No, I do not. Above all, ComEd does not expect the premise of the suggestion – that the Commission will propose unacceptable revisions to the Company's MVI methodology – to materialize. Rather, the Company is confident that the Commission will exercise the same wisdom as it has in the past and reject such revisions. In addition, the schedule in this proceeding calls for a Commission decision before April 1, 2003, or prior to the beginning of the next Applicable Period A. The Company is confident that the Commission will recognize the RES Coalition's irresponsible suggestion as extremely premature. The Commission should thoughtfully monitor market conditions and gather evidence before making any rash decision to rescind its recent Order.

Should, however, the Commission approve revisions that, on balance, are unacceptable to ComEd, any decision not to accept such revisions would prove nothing about the competitiveness of the market at issue in Docket 02-0479 (the market for large customers, who have three megawatts or more of demand). Nor would any such decision change ComEd's or Exelon's commitments to competitive markets or their long list of pro-competitive acts – a list unparalleled in the state. Moreover, whether on Rider PPO or RES supply, the customers at issue in Docket 02-0479 still would not depend upon Rate 6L, regardless of whether an MVI or NFF process is used. Again, the Commission must give the market time to make decisions and evaluate the results of those thoughtful decisions made by customers and other market dynamics before jumping to any conclusions about its decision with regard to ComEd's customers of three megawatts and greater.

Lastly, it is curious that on the one hand, the RES Coalition expresses support for a return to the NFF process, presumably because they believe it would somehow improve customer switching, yet on the other hand implies (Gale panel at 31) that such a return would somehow increase reliance on Rate 6L.

Q. The Gale panel also suggests (at 11) returning to the NFF process if its proposals are *not accepted. Please comment.*

A. As I explained in my direct testimony, the NFF process was flawed and inferior to the MVI methodology in several respects, including the results that it produced for customers. If there were a return to the NFF process, a number of problems (*e.g.*, with seasonality) would reappear, and it is unlikely that there would be a multi-year CTC option offered. It would be a shame to return to the NFF process when the whole purpose for switching to the MVI methodology was to avoid problems resulting from the NFF process. All the same, ComEd would rather return to the NFF process than provide subsidies and suffer from grossly inflated MVECs. In addition, other parties should recognize that returning to the NFF process is unlikely to result in an MVEC as high as what they are currently seeking in this proceeding.

Q. Are the flaws in the NFF process also inherent in the RES Coalition's NFF-analysis?

A. Yes. First, many RESs place a flat price on power and energy throughout the year for summer peak, summer off-peak, non-summer peak and non-summer off-peak periods. This results in an NFF value that is too high in the non-summer months and too low in the summer months. Therefore, RESs would have an incentive to sign-up customers during the non-summer months when PPO prices and CTC credits are higher than market prices and place the customers back on the PPO during the summer months when the PPO prices and CTC credits are lower than market prices. This process of "gaming" unfairly harms the utility and is not true competition. Second, the NFF process looks at historical prices rather than forward prices. The RES Coalition's Bohorquez panel, properly recognized that forward prices are more appropriate than historical prices in determining the market value. Third, the NFF process lacks transparency, an attribute that RESs have recognized is a benefit of the MVI process. Finally, the NFF process is extremely costly for the Commission, utilities and customers. All of these are flaws in the NFF process that are also inherent in the RES Coalition's NFF-analysis.

Q. Does this conclude your rebuttal testimony?

A. Yes.

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

COMMONWEALTH EDISON COMPANY	)	
	)	
Petition for declaration of service currently	)	
provided under Rate 6L to 3 MW and	)	Docket No. 02-0479
greater customers as a competitive	)	
service pursuant to Section 16-113 of the	)	
Public Utilities Act and approval of	)	
related tariff amendments.	)	

RESPONSE OF COMMONWEALTH EDISON COMPANY TO THE DATA REQUEST ISSUED BY COMMISSIONER KRETSCHMER AND AT THE DIRECTION OF THE ADMINISTRATIVE LAW JUDGES ON AUGUST 14, 2002

Commonwealth Edison Company ("ComEd") is providing the following responses to the questions issued by Commissioner Kretschmer and at the direction of the Administrative Law Judges on August 14, 2002. ComEd understands that these responses will be entered into the record as Supplemental Direct Testimony. They will be sponsored by the witness panel of Paul Crumrine and Dennis Kelter. Questions are shown in italics with responsive text following.

Please provide data for the following hypothetical example.

1. Assume a competitive electricity account in ComEd's service territory is one that would receive annual savings, under a 12-month (2002-2003 service year) Applicable Period A PPO, of 2% or more from charges under ComEd's applicable bundled rates.

What number and percentage of existing electricity accounts in each of ComEd's delivery service rate classes (rate classes 1 through 7), with the exception of customers above 3 megawatts, are not competitive?

RESPONSE:

In order to respond to this request within the available time, ComEd used a sampling procedure to estimate the requested percentages of customer accounts in each of ComEd's nonresidential delivery service rate classes (rate classes 1 through 7), with the exception of customers above 3 MW. That sampling procedure is described further, and various estimates are provided, below.

ComEd notes, however, that the Petition in this docket seeks to declare electric service under Rate 6L to be competitive only for those customers that have loads of 3 MW and above. Such a finding means that these customers have alternatives to ComEd's tariffed service from competing suppliers and that Rate 6L would no longer be available to this customer segment, except to the extent that individual customers are allowed to remain on the tariff for an additional three years pursuant to Section 16-113(b). As noted in the testimony filed by Dr. Karl McDermott (pp. 16-17), one of the expert economists testifying on behalf of ComEd, competitive markets typically evolve by providing savings first to large volume users and then to smaller volume users. ComEd also notes that the PPO is not the only alternative offering available to customers. In a competitive market, customers have other means of obtaining savings than through utility rates. These means can include, but are not limited to, lower power and energy costs provided by alternative suppliers and demand-side management. Customers may also be attracted to a competitive supplier for reasons other than savings such as bill format, value added services such as risk management or power quality services, and "green power".

ComEd's estimate of the requested percentages is provided in the table below:

Rate Class	Approximate Number of Accounts Eligible for the Class CTC	A [Estimated % of Class Customers for which PPO Savings is <2%]	B [Estimated % of Class Customers for which PPO Savings is <2% excluding the PPO Admin. Charge]	C [Estimated % of Class Customers for which PPO Savings is <0%]
7	800	5%	5%	4%
6	360	22%	21%	17%
5	1,890	24%	22%	17%
4	10,940	19%	17%	14%
3	39,350	32%	19%	22%
2	114,530	44%	32%	38%
1	92,960	94%	0%	85%

Note: The percentages shown in column A were estimated by taking a randomly selected sample of 200 customer accounts that would pay a class CTC if choosing delivery services from each of the applicable classes identified above. The charges under the applicable bundled service rate for each account in the sample were compared to those that would apply under the current Applicable Period A PPO using the 10% mitigation factor that takes effect on January 1, 2003, in order to estimate the percentage of accounts in each rate class that would not have savings of 2 % or more under the PPO as compared to ComEd's applicable bundled service rates. The percentages shown in Column B were calculated in the same manner as those in Column A with the exception that the PPO monthly administration charge was excluded. The percentages shown in Column C represent an estimate of those accounts in each class with savings that would be less than 0% if the PPO monthly administration charge were included.

ComEd notes that the estimation of savings available that are based on a comparison of bundled service rates to the PPO rates necessarily reflect changes in rate design between the frozen 1995 bundled service rates and the various new cost-based unbundled delivery service charges required under the Restructuring Act (see 200 ILCS 5/16-108). Those customers with a "lower savings percentage" as calculated above are typically the customers that benefited the most under the bundled service rate design. That is, they had lower than average bundled service costs. As is further explained below, under the Restructuring Act customers that obtained such benefits under the preexisting regulatory structure were allowed to retain them through the applicable transition periods defined in Sections 16-102 (definition of mandatory transition period) and 16-113(b) of the Act.

2. The structure of ComEd's class-based Customer Transition Charges results in certain accounts never having an opportunity to achieve savings from any source, whether it be the ComEd PPO or competitive supply, relative to ComEd's applicable tariffs for bundled electricity supply and delivery – regardless of the market price of electricity supply.

Currently, a majority of ComEd's customers with a peak demand of less than 3 megawatts are divided into 6 CTC classes, based solely on peak demand without regard to customers' usage patterns or load profiles. Customers subject to these class-based transition charges exhibit a massive disparity in their ability to achieve savings, compared to customers eligible for ComEd's customer-specific transition charges available to customers with a peak demand greater than three megawatts.

If ComEd's delivery service customer classes were segmented by on-peak consumption and on-peak load factor, an approach similar to that in use by AmerenCIPS, would a higher percentage of ComEd customers be able to achieve savings against ComEd's bundled rates?

RESPONSE:
Not necessarily. As is explained in more detail at the end of this response, ComEd does not believe that the structure of its class-based CTCs limits customer savings. In addition, the suggested restructuring is not possible for several of the identified classes, and may not benefit the others.

First, ComEd could not segment its delivery services classes, even for CTC purposes, as proposed. ComEd does not have on-peak usage information for most of its customers below 500 kW in size. The meters used for such customers do not provide that data. Thus, the proposed approach of segmenting customers by on-peak usage and on-peak load factor could not be done for classes 1-5. ComEd notes that Ameren also does not provide this type of segmentation for its non time-of-use customers, which represent most of its nonresidential customers. Where Ameren does use this type of segmentation it is solely for the purpose of calculating Market Value Energy Charges (MVECs) and Customer Transition Charges (CTCs).

Second, even where ComEd does have data, the potential benefits associated with the suggested changes are not clear. The theory is that if ComEd were to create smaller groupings of delivery services customers for the purpose of determining CTCs, those groups would be of a more homogenous nature and this would reduce variability in open access savings. This assumption may not be correct. Common attributes that can accurately be used to group customers must first be identified. Customers with the same on-peak load factor can have very different load profiles and, in turn, different costs under either bundled service rates or open access. For example, even if the approximately 1,890 customers in class 5 (400 – 800 kW) were equally segmented into three subgroups, there would still be about 630 customers per subgroup. It is not certain that the potential variability in savings for these three groups of customers would be significantly different than that which exists for the entire 1,890 customers. Further, if an appropriate set of attributes are not used to segment that customer class into small subgroups then the variability of savings within the subgroups could actually increase because the smaller subgroups do not consist of homogenous customers. The suggested subgrouping could also result in a decrease in savings for those customers that have high potential for savings today.

Third, a rate redesign along the lines suggested would result in customer confusion. Not only would it be difficult to explain to customers, customers would be more likely than under the current rate structure to move between groups due to changes in load or usage patterns. For example, a customer could have savings of 14% in one subgroup, increase its load to the point that it moved into another subgroup, and see its savings reduced to 5%.

Fourth, the CTC is part of a revenue stream that supports the $3.4 billion in securitization bonds approved by the Commission in Docket 98-0319. The state has pledged not to in any way "limit, alter, impair or reduce the value of intangible transition property created by, or instrument funding charges approved by, a transitional funding order . . . ." 220 ILCS 5/18–105 (b). There are specific provisions in the Act requiring allocation among customer classes proportionately with their share of 1996 base revenues and the Commission's order provides further detail regarding applicable customer classes. The securitization structure provides for a true-up that allows for cross collaterization among classes for shortfalls due to any class hitting its statutory cap. Changes in CTC structure should take into account these factors as well.

Finally, ComEd notes that Illinois did not enact a Restructuring Act that guaranteed a certain level of savings from existing bundled service rates, as some states did. Instead Illinois provided an opportunity for competitive markets to develop by setting up a cost-based delivery service structure and allowing for customer choice. Differences in rate design between the new cost-based delivery service rates and the pre-existing bundled service rates are the primary factor creating variability in savings between different customer groups. Simply put, what limits the ability of some customers to save, regardless of the market price for electric power and energy, is the fact that for some customers, bundled service rates are already at or below the cost of market–priced energy and delivery services.

There are many factors that must be balanced in creating and transitioning between rate designs. These include cost causation, cost recovery, public understandability and acceptance of the reasonableness of the rate structure and level, avoidance of rate shock, and ease of administration. In designing its delivery services rate classes, ComEd sought to balance these factors. By creating more delivery services classes (and corresponding CTC customer classes) than bundled service rate classes, ComEd sought to provide savings opportunities to small as well as larger customers. The Commission has previously found that ComEd properly defined its delivery services classes.

The General Assembly also recognized that certain customers had benefited from the rate design decisions made under the pre-existing regulatory structure and ensured a lengthy transition period for those customers. Overall, the General Assembly emphasized the gradual development of an "effectively competitive electricity market that operates efficiently and is equitable to all consumers". 220 ILCS 5/16-102A(d). ComEd strongly believes there is little benefit (if any) to be gained by creating more subgroups for the purpose of calculating MVECs and CTCs, especially considering the implementation costs discussed below and the potential for customer confusion. ComEd already has thousands of customers participating in open access (substantially more than Ameren) and neither increased customer confusion nor the uncertainty associated with revising the existing rate structure is likely to increase that figure.

3. Provide a cost estimate and implementation timeframe for calculating and publishing multiple 'sub' rate classes (3) for each delivery services rate class (1 through 7), segmented by percentage of on-peak consumption and on-peak load factor, and provide Market Value Energy Charges and Customer Transition Charges for each subclass.

RESPONSE:
As indicated above, ComEd does not have on-peak usage information for most of its customers below 500 kW in size and thus the proposed approach of segmenting customers by on-peak usage and on-peak load factor could not be done for classes 1 through 5. Subject to the qualifications stated below, ComEd estimates that it would take at least 5 months and cost more than $800,000 in order to create three subgroups and calculate just the MVECs and CTCs to be used for subclasses 6 and 7.

This estimate reflects the fact that the determination of on-peak load factor for classes 6 and 7 will require an additional demand reading based on the Energy Peak Period, a demand reading not directly used as a billing unit at ComEd. ComEd notes that on-peak consumption is measured over a different time period (9AM to 10PM) than demand (9AM to 6PM). Use of existing data could result in customers being assigned load factors in excess of 100 percent. The implementation of CTC and MVEC subgroups using on-peak consumption and on-peak load factor would also require an automated process involving updates of ComEd computer systems such as PowerPath Data Mart, CIMS, Load Vision, Data Request, ESSD Reporting, and the PPO Calculator.

The time and cost to fully implement such charges would be even greater than the estimate set forth above. Changes would need to be communicated to customers and RESs. This means that communications materials would need to be developed and employees trained to handle inquiries. RESs may also have to incur costs to make changes in their business systems to handle these charges. It is not clear that any benefit anticipated from the suggested change would outweigh the costs of implementation, especially given the relatively short period of time for which transition charges will remain in effect.

In addition, ComEd is not sure how three subgroups would be identified using the two attributes identified. Identification of the two attributes (on-peak consumption and on-peak load factor) suggests the creation of at least four rather than three subgroups. The number of possible subgroups would also increase dramatically with each additional variable attribute identified. The costs of implementing would increase dramatically as well.

4. Because of the valuation of the Market Value Energy Charge, competitive suppliers have not been able to compete effectively with ComEd's Power Purchase Option tariff during a number of time periods.

What are the implications of adding a fixed increment as an adder to the Market Value Energy Charge calculation for both on-peak and off-peak periods, as an adjustment to reflect the difference between wholesale and retail market values?

RESPONSE:
As shown in the testimony of Paul Crumrine and Dennis Kelter, ComEd believes that competitive suppliers have in fact been able to compete effectively with the PPO. This is in part because its Market Value Energy Charge is already based on actual market prices, adjusted to take account of actual customer load characteristics. The existing MVEC methodology calculates the value of the electric commodity freed up when a customer leaves ComEd as required by Section 16-102 (definition of transition charges) of the Act. While this methodology uses wholesale block-trade prices as inputs, those inputs are

adjusted to reflect the difference between the value of a wholesale block product and the value of the freed-up electricity associated with the customer's retail load shape. These include adjustments for the following:

- **ComEd Hub**: While the Midwestern wholesale market is centered on the 'into-Cinergy' hub, the MVEC methodology adjusts for the fact that the customer load is served in ComEd's service territory.
- **Load Shape**: While wholesale traders quote prices to deliver the same number of megawatts across a long period, the MVEC methodology adjusts for the fact that customer loads have a 'shape' from month to month, day to day, and hour to hour.
- **Uncertainty**: While wholesale transactions typically specify the exact quantity in advance, the MVEC methodology adjusts for the fact that prices and customer loads are uncertain.
- **Energy Loss**: While wholesale contracts are delivered to a high-voltage busbar, the MVEC incorporates the additional cost of delivering power to the meter.

These types of adjustments result in a more accurate estimate of the market value than a fixed increment adder would. Adding such a fixed increment to the existing MVEC would double-count adjustments already included in the existing methodology. The resulting MVEC would be higher than the value of the underlying electric commodity and inconsistent with the applicable sections of the Restructuring Act (220 ILCS 5/16-102, 16-108, 16-112). More detail on the existing MVEC methodology and the adjustments it incorporates can be found in the Commission's Order on Reopening in Dkts. 00-0259, 00-0395, 00-0461 (consol.).

As is explained further in the testimonies of Arlene Juracek (pp. 11-12) and the panel of Bill McNeil and Jennifer Sterling (pp. 22-26), competition would be enhanced if RESs were encouraged to focus less on existing utility rates when choosing how to best serve their customers.

5. As an alternative to calculating an appropriate adder to the Market Value Energy Charge, provide a cost estimate and implementation timeframe for providing individually calculated Customer Transition Charges for the following delivery service classes:

RCDS Class 7 (1-megawatt to 3-megawatt maximum demand)

Class 6 (800-kilowatt to 1-megawatt maximum demand)

Class 5 (400-kilowatt to 800-kilowatt maximum demand)

RESPONSE:
The main difficulty related to creating additional individual CTC calculations for customers below 3 MWs in size is the time consuming manual effort needed to collect

individual customer information for the three years ending June 30, 1999, as is required under Section 16-102 (definition of transition charges) of the Restructuring Act. That historical data is not readily available and if retrieved would need to be reviewed to determine if it were sufficient for the required calculations. Thus at this time it is not certain that such individual calculations could be made. The implementation of customer specific CTCs also requires more interaction between ComEd personnel and the billing system as well as additional time on an ongoing basis as customers and RESs have questions relating to the individual customer calculations. Many of the steps that would need to be taken to implement the suggested change, assuming it could be made, are detailed in the attached preliminary cost estimate. This is one reason why the Restructuring Act required ComEd to calculate individual CTCs only for those customers with loads of 3MW and above and customer class CTCs for all other customers (see Section 16-108(g)). ComEd has 373 customers with loads of 3MW and above. In contrast it has approximately 1,300 customers in class 7 with loads of less than 3MW in demand, 600 in class 6, and 3,200 in class 5.

If ComEd were to implement individual CTCs for 1-3 MW customers, it may be able to do so by June 2003.

Finally, ComEd notes that a switch to individually calculated CTCs, while reducing the CTCs paid by some customers will increase the CTCs to be paid by other customers in each of the relevant classes.

6. If ComEd chose to calculate and provide individual CTCs to all customers in delivery service rate classes 5 through 7 (see subgroups in Question #5 above), would all customers in these rate classes be able to obtain substantial savings against ComEd's bundled rates, as long as ComEd's CTCs are greater than 0? Please elaborate on your answer.

RESPONSE:
Some customers' savings could be increased; potential savings for many customers could be decreased. If a customer has a positive, customer-specific CTC, depending on the rate design issues noted above, then PPO savings in general would be roughly equivalent to the mitigation factor. Of course, a specific customer will have savings that could be more, equal to, or less than the mitigation factor based on its actual usage pattern going forward in time.

7. Please calculate hypothetical rate changes for the following customer groups with loads of 3 MW or more, if Rate 6L was declared competitive with respect to customers with loads of 3 megawatts or more. In all cases, please use real or representative starting rates as they exist prior to the implementation of this filing. Please explain all assumptions for each group.

a. *Customers currently on Rate 6L and continuing on Rate 6L for 3 years from June 2003 until the end of May 2006.*

b. *Customers not on Rate 6L as of June 2003, customers choosing to discontinue service under Rate 6L subsequent to June 2003, and new customers not eligible to take service under Rate 6L.*

c. *Customers currently on Rate 6L that switch to Rate RCDS.*

d. *Customers currently on Rate 6L that switch to PPO Service.*

e. *Customers currently being served by a RES, who are dropped by the RES and take service under Interim Supply Service.*

f. *Customers not eligible for Rate 6L who take service under Rate HEP.*

RESPONSE:
It is difficult to calculate rates or charges other than the bundled service rates that are the subject of the rate freeze in 16-111 of the Restructuring Act since they are dependent on market values. With this qualification, ComEd provides the following answers:

a. Attached is a Rate 6L calculation for a greater than 3 MW customer. This customer pays 6.21 cents/kWh under Rate 6L. There are no changes in the bundled service rates (i.e., Rate 6L) for this or any customer during the three-year period.

b. This customer is assumed to take RES supply or PPO service. As shown in the attached PPO calculation, which is based on the Applicable Period A MVECs filed with the Commission for informational purposes in April 2002, the customer would pay 5.56 cents/kWh for delivery and PPO service or a 10.5% annual savings compared to Rate 6L. ComEd does not have an alternative RES supply rate to use in this calculation. Again, subject to such factors as a change in the customer's usage pattern and future market values, it would not be unreasonable to assume that the level of savings will increase as the mitigation factor increases.

c. The Rate RCDS charges are 1.0 cents/kWh for this illustrative customer (see details provided in subparagraph b above).

d. The PPO calculation for this customer is the same as that provided in response to subparagraph (b) above.

e. The amount that a customer would pay for Interim Supply Service can vary depending on the point in time that the customer takes service under Rider ISS and the fact that the customer can take service under the tariff for a period of not more than three monthly billing periods. Thus, ComEd cannot provide the requested estimate.

f. As noted in the panel testimony of Paul Crumrine and Dennis Kelter, "A customer's costs under Rate HEP may be higher, or they may be lower, than its costs to receive service under Rate 6L. Because Rate HEP is spot market-based, it is impossible to predict with certainty." During the last year a Rate 6L customer could have paid less under Rate HEP than it paid under Rate 6L.

ATTACHMENT TO COMED RESPONSE FOR REQUEST 5 OF THE DATA REQUEST SUBMITTED BY COMMISSIONER KRETSCHMER - COST ESTIMATES ASSOCIATED WITH IMPLEMENTING CUSTOMER SPECIFIC CTCs ASSUMING SUFFICIENT DATA FOR THE CUSTOMER CLASSES:

(a) 1,000 to 3,000 kW class (b) 800 kW to 1,000 kW class and (c) 400 kW to 800 kW class.

Activity	Department	Estimated Costs
1. Initial individual CTC calculations		
- Extract July 96 through June 99 billing data for customers.	IT	$27,000
- Format data and prepare spreadsheets to calculate individual CTCs.	Distribution Pricing	(a) 1 MW to 3 MW: 1,300 customers $65,000 (b) 800 kW to 1 MW: 600 customers $40,000 (c) 400 kW to 800 kW: 3,200 customers $266,700
2. Initial Implementation of individual CTCs		
- File tariffs	Various	$5,000
- Communicate individual CTC to customers and RES	Distribution Pricing	Prepare and mail individual CTC notification: (a) $17,100 (b) $7,900 (c) $42,100
	ESSD/ESO	Develop and distribute communication materials: $8,000
	ESSD	Revise PPO Estimator on web site: $1,000
- Switch customers to individual CTCs plus DASR activity	System Billing/ESSD	For Existing Customers on Delivery Services: (a) $8,000 (b) $3,400 (c) $18,000
- RCDS/PPO Contract Oversight	ESSD/ESO	Initial contracts required for customer specific CTCs: (a) $6,600 (b) $ 2,500 (c) $13,500
- Respond to initial inquiries for RES's and customers regarding the new individual CTC	ESO/Call Center/ESSD	Provide detailed explanations of the new provision and review of customer data: (a) $24,600 (b) $11,400 (c) $60,500
- CTC processing work stations	Distribution Pricing	$5,000
- Training of ComEd Employees		$5,000

ATTACHMENT TO COMED RESPONSE FOR REQUEST 5 OF THE DATA REQUEST SUBMITTED BY COMMISSIONER KRETSCHMER - COST ESTIMATES ASSOCIATED WITH IMPLEMENTING CUSTOMER SPECIFIC CTCs ASSUMING SUFFICIENT DATA FOR THE CUSTOMER CLASSES:

(a) 1,000 to 3,000 kW class (b) 800 kW to 1,000 kW class and (c) 400 kW to 800 kW class.

3. Annual individual CTC Management		
- Update individual CTCs	Distribution Pricing	Update individual CTC calculation, maintain eligibility list, calculate individual CTC for additional customers: (a) $4,300 (b) $2,000 (c) $ 10,700
- Review/correct manual individual CTCs	Distribution Pricing/Billing	(a) $3,300 (b) $1,500 (c) $8,000
- Maintain individual CTCs for customers that switch from RES to PPO or from one RES to another	Billing	Manually maintain the CTCs in the billing system: (a) $2,200 (b) $1,000 (c) $ 5,300
- RCDS/PPO Contract Oversight	ESO/ESSD	PPO Team review for zero CTCs and handling of RCDS contracts with a customer-specific CTC: (a) $24,700 (b) $11,400 (c) $ 60,900
- Respond to increase data requests from RESs and customers	ESSD/Distribution Pricing	(a) $17,000 (b) $7,800 (c) $41,700
- Respond to customer inquiries/dispute resolutions on individual CTC	Call Center /ESO/System Billing/Distribution Pricing	(a) $9,800 (b) $4,500 (c) $24,200

COST SUMMARY

Class	# of Customers	Initial Cost	Ongoing Annual Cost
Class independent setup		$51,000	
(a) 1 MW to 3 MW	1,300	$121,300	$61,300
(b) 800 kW to 1,000 kW	600	$65,200	$28,200
(c) 400 kW to 800 kW	3,200	$400,800	$150,800
Total	5,100	$638,300	$240,300

ATTACHMENT TO COMED RESPONSE FOR REQUEST 7 (a) (b) (c) (d) OF THE DATA REQUEST SUBMITTED BY COMMISSIONER KRETSCHMER
SAMPLE CALCULATIONS FOR A GREATER THAN 3 MW CUSTOMER SERVED UNDER (I) RATE 6L AND (II) RATE RCDS WITH RIDER PPO

(I)
SAMPLE CALCULATION UNDER RATE 6L

	Peak Billing Demand (kW)	Peak Energy (kWh)	Off Peak Energy (kWh)	Customer Charge	Demand Charge (less than 10 MW)	Peak Energy Charge	Off Peak Energy Charge	Total Bill
Jan	7,013	1,422,230	2,100,195	$246.30	$12.85	$0.05022	$0.02123	$206,375
Feb	6,930	1,258,868	2,134,025	$246.30	$12.85	$0.05022	$0.02123	$197,939
Mar	7,200	1,300,434	2,463,767	$246.30	$12.85	$0.05022	$0.02123	$210,894
Apr	7,230	1,447,675	2,054,777	$246.30	$12.85	$0.05022	$0.02123	$200,599
May	7,313	1,733,904	1,903,704	$246.30	$12.85	$0.05022	$0.02123	$223,416
Jun	7,734	1,760,060	2,134,978	$246.30	$16.41	$0.05022	$0.02123	$261,111
Jul	7,861	1,783,410	2,407,907	$246.30	$16.41	$0.05022	$0.02123	$271,041
Aug	7,870	1,861,791	2,472,856	$246.30	$16.41	$0.05022	$0.02123	$280,418
Sep	7,413	1,344,445	1,876,040	$246.30	$16.41	$0.05022	$0.02123	$239,292
Oct	7,152	1,758,581	1,508,142	$246.30	$12.85	$0.05022	$0.02123	$221,212
Nov	7,302	1,531,461	1,844,760	$246.30	$12.85	$0.05022	$0.02123	$212,717
Dec	7,289	1,116,788	1,604,088	$246.30	$12.85	$0.05022	$0.02123	$185,973
		(A)	(B)					(C)
Totals		18,430,364	26,186,128					$2,730,708

Cost in Cents per kWh
(C)/((A)+(B))*100
6.21

(II)
SAMPLE CALCULATION UNDER RATE RCDS AND RIDER PPO

Assuming the Customer-specific CTC effective January 1, 2003 and Period A Rider PPO Market Value Energy Charges filed April 11, 2002

	Peak Billing Demand (kW)	Peak Energy (kWh)	Off Peak Energy (kWh)	Customer and Metering Charge	Distribution Facilities Charge $/kW	Transmission Service Charge $/kWh	January 1, 2003 Period A CTC	Rider PPO Peak MVEC	Rider PPO Off Peak MVEC	Rider PPO Administration Charge	Total Bill
Jan	7,104	1,422,230	2,100,195	$379.47	$3.61	$0.00240	$0.02015	$0.02000	$0.01967	$79.00	$187,518
Feb	7,211	1,258,860	2,134,025	$379.47	$3.61	$0.00240	$0.02015	$0.02000	$0.01967	$79.00	$180,982
Mar	7,233	1,300,434	2,463,767	$379.47	$3.61	$0.00240	$0.02015	$0.02000	$0.01967	$79.00	$197,485
Apr	7,329	1,447,675	2,054,777	$379.47	$3.61	$0.00240	$0.02015	$0.02000	$0.01967	$79.00	$187,340
May	7,365	1,733,904	1,903,704	$379.47	$3.61	$0.00240	$0.02015	$0.02000	$0.01967	$79.00	$190,199
Jun	7,831	1,760,060	2,134,978	$379.47	$3.61	$0.00240	$0.02015	$0.04527	$0.01652	$79.00	$232,580
Jul	7,881	1,783,410	2,407,907	$379.47	$3.61	$0.00240	$0.02015	$0.04527	$0.01652	$79.00	$248,309
Aug	7,908	1,861,791	2,472,856	$379.47	$3.61	$0.00240	$0.02015	$0.04527	$0.01652	$79.00	$250,044
Sep	7,382	1,344,445	1,876,040	$379.47	$3.61	$0.00240	$0.02015	$0.04527	$0.01652	$79.00	$206,266
Oct	7,138	1,758,581	1,508,142	$379.47	$3.61	$0.00240	$0.02015	$0.02000	$0.01967	$79.00	$197,355
Nov	7,524	1,531,461	1,844,760	$379.47	$3.61	$0.00240	$0.02015	$0.02000	$0.01967	$79.00	$183,397
Dec	7,432	1,116,788	1,604,088	$379.47	$3.61	$0.00240	$0.02015	$0.02000	$0.01967	$79.00	$155,864
	(A)	(B)	(C)	(D)	(E)	(F)					(G)
Totals	89,008	18,430,364	26,186,128	84,804							$2,426,309
					$3.61	$0.00240					

Total Cost in Cents per kWh
(G)/((B)+(C))*100
5.56

Rate RCDS Cost in Cents per kWh
[illegible]
1.64

Commonwealth Edison Company
August 22, 2002
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